The Finnish pension system is structured mainly with a pay-as-you-go –principle. Accordingly, the working population pays the pensions of the already retired population. If there is a change in the worker-retiree –ratio, financing of the pension system can become problematic. Therefore, the timing of retirement or the average retirement age matters.

The decision to retire is influenced by a number of economic and non-economic factors. This thesis focuses on the economic incentives of retirement. The thesis uses large panel data sets to construct these incentives for the Finnish population. The aim of the study is to assess how much these incentives affect the probability of retirement.

The first essay divides retirement into retirement with the disability pension, with the unemployment pension and with the old-age pension. Higher replacement rate increases the conditional probability of retirement, but this relationship is non-monotonic. Most clearly the replacement rate increases the probability of retirement through the unemployment pension, and it has no effect on the timing of the old-age retirement.

The second essay shows that ignoring the difference between disability application and transition probability produces results that are halfway between the two. The essay also tests the impact of a number of different life-cycle incentives. Results on the pure life-cycle incentives are counter-intuitive, whereas the option value results are of the expected sign.

The third essay considers part-time retirement. Financial compensation is estimated for each individual in full-time work, part-time work and in full-time retirement. Results show that the part-time pension has been financially most advantageous to those who chose this option. The essay also estimates that fifty per cent of the partially retired would have chosen full-time retirement, had they not had the part-time option.

The fourth essay takes also the employer incentives into account. It tests an implicit contracts model on a linked employer-employee panel data. Results show that joint incentives of early retirement matter more when the economic conditions are bad. The essay also shows that experience-rating of the displacements affects the firm behaviour.